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Banker

The Daily Financial Services Newspaper

VOL. CXLIX NO. 237

Friday, November 30, 1984

149th Year

TODAY

Correspondent Banking Review



A few dark clouds have been hovering over interbank relationships lately, but bankers' forecasts have varied. Some predict thunder and lightning, while others see patches of blue burning through. Today's feature section underscores the fact that the correspondent climate is astir with change. The section begins on page..... 11

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Thrifts Give Big Boost to Correspondent Banking

Accounted for 12% of Domestic Balances at Midyear, American Banker Survey Finds

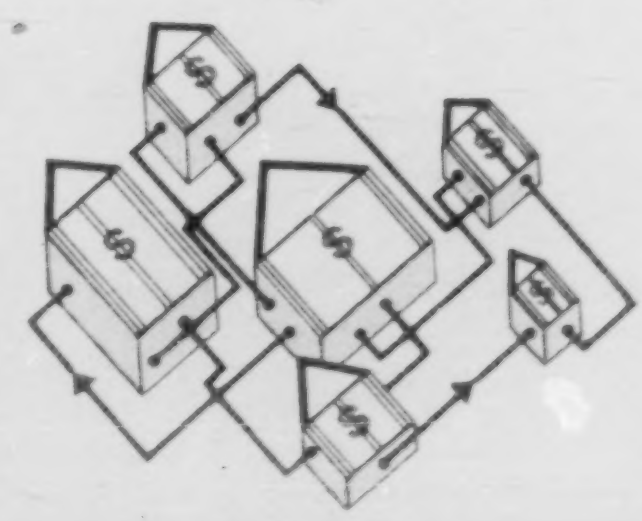
By L. MICHAEL CACACE

NEW YORK — The changes in the thrift institution industry caused by deregulation appear to be having a major impact on commercial banks' correspondent banking business.

New data published today by the *American Banker* as part of its annual survey of correspondent banking show for the first time how sizable a figure the correspondent bank balances deposited by thrift institutions into commercial banks has become. Approximately 12% of total domestic correspondent balances — demand deposits due banks and thrifts — are thrift correspondent balances.

The new data reflect the recent changes in federal regulatory report of condition, which require banks for the first time to report deposits due all thrift institutions — mutual and stock savings banks, building and savings and loan associations, homestead associations, cooperative banks, and credit unions. In prior years, only deposits due mutual savings banks were reported to federal regulators.

The importance of the thrift business is most dramatically reflected in the figures reported by banks in California, where the savings and loan industry is



heavily concentrated. For example, Union Bank, Los Angeles, vaulted 59 places in rank — to eighth place — because of the inclusion of \$336 million in demand deposits due all thrifts. Security Pacific National Bank, Los Angeles, moved up eight places — to 10th place — because of the inclusion of \$141 million in thrift balances.

Union Bank's domestic correspondent balances rose more than 500% to \$594.7 million on June 30. A year ear-

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lier, the bank reported domestic correspondent balances of only \$99 million, with no deposits due mutual savings banks. The \$336 million in thrift correspondent balances makes Union Bank the top bank in thrift correspondent balances.

"Union Bank has long been a leading correspondent bank to the thrift industry and, in general, places heavy emphasis on its financial institutions' business," said Mark Buchman, the bank's executive vice president. He identified check clearing as the major correspon-

dent service that Union Bank provides to thrifts.

Security Pacific National Bank, with its \$141 million in thrift correspondent balances, ranks third in these deposits. Thrift balances accounted for 28.1% of the bank's domestic correspondent balance total of \$500.6 million on June 30. A year ago, the bank reported only \$163,000 in correspondent balances due mutual savings banks.

Because of the tremendous impact that thrift balances had on the balances reported by Union Bank and Security Pacific, the *American Banker* footnotes these banks in its listing of the top domestic correspondent banks, beginning on page 28, to caution the reader that the 1984 and 1983 data are not comparable because of call report changes.

(The *American Banker* identifies the top 100 banks in thrift correspondent balances in a new table appearing on page 40. Also, for a discussion of all of the changes in the call report affecting the *American Banker's* correspondent banking definitions and statistical listings, see the related story on page 9.)

There were 344 commercial banks in
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Top 5 Banks Deposits Due Thrifts

Demand Deposits (\$ Mil.)	
1 Union Bank	\$336
2 Savings Bank & Trust..	168
3 Security Pacific	141
4 Manuf. Hanover	122
5 1st Nat'l Bank, Boston	90

Top 5 Banks Deposits Due Banks

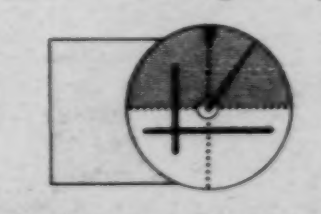
Demand Deposits (\$ Mil.)	
1 Manuf. Hanover	\$1,576
2 Bank of America	1,160
3 Chase Manhattan.....	1,117
4 1st Nat'l Bank, Boston	726
5 Bankers Trust Co.	717

Norwest Goes into Franchising

8 Banks in Wyoming Will Soon Be Buying Firm's Services

Special to the *American Banker*

MINNEAPOLIS — Eight Wyoming banks will soon be sporting the Norwest Corp.'s name and buying its services under the first franchising agreement signed by the Minneapolis-based bank holding company.



Corporate Strategy

The agreement with Affiliated Bank Corp., parent company of the eight Wyoming institutions, will mark the first time the Norwest logo will appear outside its traditional seven-state service area.

Bank franchising is a relatively new concept pioneered by the California-based First Interstate Bancorp. It is, in part, a response to growing competition from other financial institutions

not subject to federal limits on interstate banking.

"This is a way of extending our representation into new geographic areas without actual ownership of the bank itself," Norwest chairman John Morrison said.

Affiliated will remain independent and keep its existing management. It will pay franchise fees and royalties to Norwest and will benefit from its advertising and computer technology. Affiliated will also have access to such Norwest services as mortgage banking, venture capital, and insurance.

Customers of Affiliated's banks will be able to cash checks at Norwest's 235 banking offices and the 540 offices of Norwest Finance, a Des Moines-based

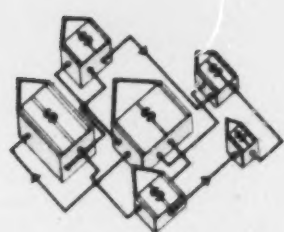
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Inclusion of Thrifts Hikes Correspondent Banking Totals

Continued from Page 1

the United States with total domestic correspondent balances of \$10 million or more on June 30, compared with 300 banks a year earlier. The inclusion of all thrift correspondent balances is the major reason for the increase in the number of banks in the listing.

Top 5 Banks

Deposits Due Foreign Banks

Demand Deposits (\$ Mil.)

1 Chase Manhattan Bank	\$1,326
2 Citibank NA	1,065
3 Manuf. Hanover	1,060
4 Chemical Bank	1,025
5 Bankers Trust Co.	996

Thrift correspondent balances for these 344 banks totaled \$3.6 billion at midyear, or 12.1% of the \$29.53 billion in total domestic correspondent banks held by these banks. A year earlier, correspondent balances due mutual savings banks — the only thrift correspondent balance data available — totaled only \$870 million for these same 344 banks and accounted for only 3.1% of the \$27.25 billion in domestic correspondent balances held by these banks.

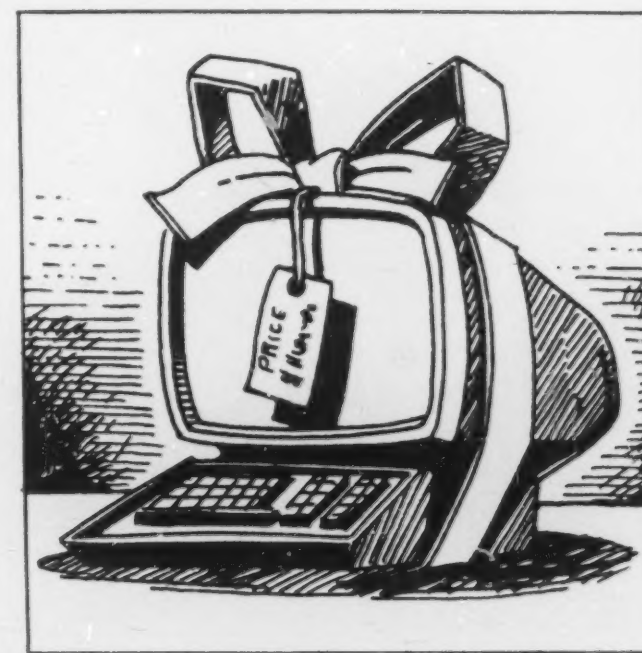
Sandwiched between Union Bank and Security Pacific as the second largest bank in correspondent balances due thrifts is Savings Bank Trust Co., New York, with \$168.1 million at midyear. This total accounts for 100% of the bank's domestic correspondent balances.

The bank — established as a depositary trust company for the thrift industry under a special New York State banking law — is a state-chartered

commercial bank that is not insured by the Federal Deposit Insurance Corp. and is not a member of the Federal Reserve System. It is included in the *American Banker* survey for the first time so that all banks providing correspondent services to the thrift industry are identified.

The nation's top domestic correspondent banker, Manufacturers Hanover Trust Co., New York, ranks fourth in thrift correspondent balances with \$122.3 million on June 30. These deposits represent 7.8% of Manufacturers Hanover's \$1.58 billion in domestic correspondent balances on June 30.

Manny Hanny was not as greatly affected by the broadened definition of domestic correspondent balances as was Union Bank and Security Pacific. On June 30, 1983, Manufacturers Hanover reported \$101.5 million in demand deposits due mutual savings banks.



Data Processing

First National Bank, Boston, the nation's fourth largest domestic correspondent bank with \$726 million, was

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Diebold Unveils Free-Standing, Drive-in ATMs

By MICHAEL WEINSTEIN

NEW YORK — Diebold Inc., based in Canton, Ohio, has introduced a new automated teller machine for use at drive-in lanes outside bank offices.

Diebold, the leading manufacturer of teller machines in the United States, says the new unit is the first free-standing machine available for drive-up use. Until now, the firm said, teller machines serving drive-up customers have been installed through the wall of the bank office or another physical structure.

"Over half of all transactions at banks with drive-in facilities are made at the drive-in lane," Diebold president Robert W. Mahoney said. "The island ATM can accommodate substantial increases in transaction volume."

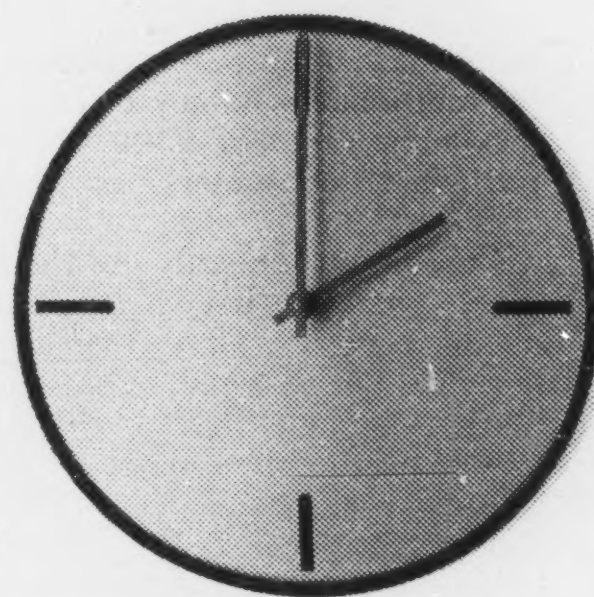
The new machine, which performs the standard teller machine transactions, costs between \$30,000 and \$32,000, said Michael S. Paulus, Diebold's manager of public relations. The new machine increases a bank's flexibility with drive-up ATMs, Mr. Paulus said, since the unit can be installed in a lane that is not adjacent to a building.

In another development, Diebold said that it will close its manufacturing plant in Wooster, Ohio. The announcement reflects declining demand for the traditional banking equipment — such as safe deposit boxes, drive-up windows, and units designed to operate under teller counters — made at the Wooster plant, Mr. Paulus said.

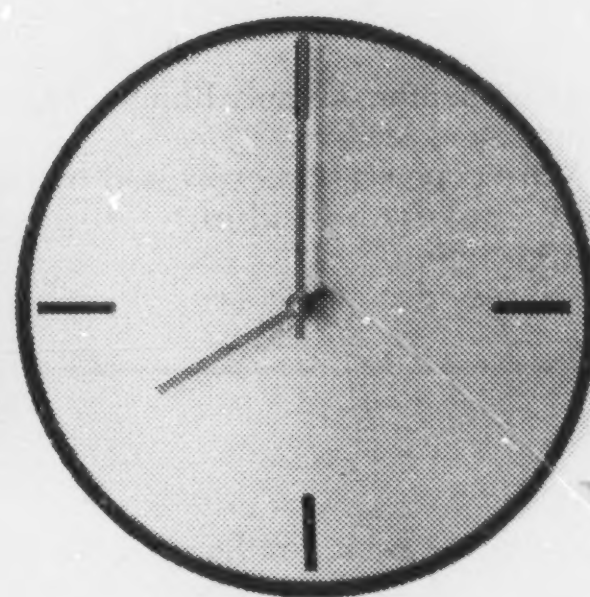
"The impact for us is minimal," he said. "It isn't anything major." And Susan K. Skinner, an analyst with Donaldson, Lufkin & Jenrette, does not think the move will have a significant impact on the company.

Diebold makes a variety of automated banking systems and electronic and traditional security equipment. In 1983, Diebold had net income of \$49 million on sales of \$445 million.

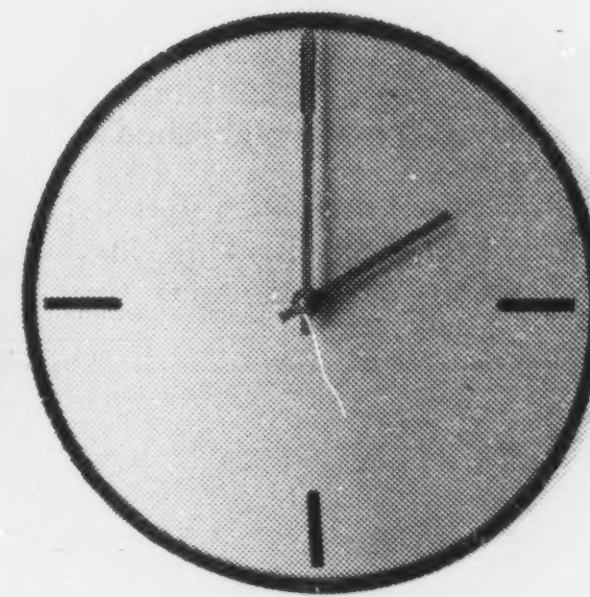
The Wooster plant will close next May. Diebold will continue to make the Wooster plant's products at its Canton facility. Diebold will also continue to operate both plants in Newark, Ohio, and its facility in Hamilton, Ohio.



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Correspondent Banking Survey's Definitions, Data Sources

The data for the *American Banker* survey of correspondent banking are taken from an *American Banker* questionnaire asking for June 30, 1984, data from the federal regulatory report of condition, or "call report."

Specifically, the data requested were from Schedule RC-E, Part 1, of the call report. This part asks for a breakdown of deposits for a bank and its domestic subsidiaries. In addition, banks with Edge banking subsidiaries were asked to report selected deposit data, as of June 30, for their domestic Edge banking offices from Federal Reserve Form FR2886b, which is the Edge bank call report.

Domestic correspondent balances are defined as the sum of demand deposits due other depository institutions in the United States, plus demand deposits due other commercial banks in the United States (excluding U.S. branches and agencies of foreign banks) and demand deposits due the foreign branches of other U.S. banks. Other depository institutions include mutual and stock savings banks, building or savings and loan associations, home-stead associations, cooperative banks, and credit unions. Demand deposits due these other depository institutions are called **correspondent balances due thrift institutions**.

Foreign correspondent balances are the sum of demand deposits due other banks in foreign countries, plus demand deposits due the U.S. branches and agencies of foreign banks and demand deposits due foreign government and official institutions. Added to these foreign correspondent balances are the **clearing balances** in the bank's domestic Edge bank subsidiaries.

Clearing balances are the sum of the Edge bank's transaction accounts due foreign government and official institutions, plus transaction accounts due commercial banks in the United States and transaction accounts due banks in foreign countries.

Data Resources Inc., Lexington, Mass., or **DRI**, helped the *American Banker* identify the universe of approximately 500 banks surveyed for this study. In addition, DRI provided the *American Banker* with data from Schedule RC-E for approximately 70 banks that did not respond to the survey questionnaire. DRI has a computerized data base of commercial banks derived from the Federal Reserve Board quarterly computer tape of the call report.

Changes in Definitions

The substantial changes in the call report, beginning with the March 31, 1984, report, resulted in one major definitional change and one major reporting problem for *American Banker*.

The significant call report change affecting the correspondent banking definitions was the inclusion of all thrift institution deposits on Line 5 of Schedule RC-E of the call report—"deposits due other depository institutions in the U.S." Prior to this year, only the deposits of mutual savings banks were identified separately. The deposits of the other thrift institutions were reported as part of deposits of individuals, partnerships, and corporations, and therefore were previously not included in the survey figures reported by banks.

This new line helps provide a more accurate measure of total domestic correspondent balances and, for the first time, identify the top banks in correspondent relationships with thrifts. The *American Banker* survey identifies the top 100 banks in correspondent balances due thrifts in a special new table in today's edition.

The most significant problem was the elimination by regulators of the breakdown of "demand deposits due commercial banks in the U.S." into its two component parts: demand deposits due the U.S. branches and agencies of foreign banks and demand deposits due other commercial banks in the United States.

Banks now are required only to report total demand deposits due commercial banks in the United States. Similarly, the breakdown of "demand deposits due banks in foreign countries" into its two component parts was eliminated. That category had included demand deposits due foreign branches of U.S. banks and demand deposits due other banks in foreign countries.

Problem for NYC Banks

The elimination of these breakdowns caused substantial problems because demand deposits due U.S. branches and agencies of foreign banks are a component of foreign correspondent balances, and demand deposits due the foreign branches of U.S. banks are a component of domestic correspondent balances.

The problem is a significant one for major New York City banks, who clear many of their foreign trade, foreign exchange and foreign correspondent transactions through the U.S. branches and agencies of foreign banks. These foreign bank-related transactions are again appearing as deposits due "domestic banks," distorting the measures of both domestic and foreign correspondent balances.

In May of this year, the *American Banker* conducted a special survey of the top 50 correspondent banks, asking them if they would be able to provide the breakdowns of both deposits due U.S. commercial banks and deposits due foreign banks (as per the 1983 call report). If the banks continued to report this breakdown, the definitions could be maintained and the data comparisons with prior years could be maintained. Thirty banks responded to this survey, and 28 banks, or 93% of those responding, said that they could and would provide this breakdown. Based on this response, the *American Banker*, in its survey of all 500 correspondent banks, asked for this breakdown.

Fortunately, more than 95% of the survey population that respond-

ed to the questionnaire were able to provide the breakdown. For those unable to do so, the following assumptions were made: all amounts reported under the new call report category "demand deposits due U.S. banks" are considered domestic correspondent balances, and all amounts reported under the new call report category "demand deposits due banks in foreign countries" are considered foreign correspondent balances.

Unfortunately, among the less than 5% of the banks that were unable or unwilling to provide the old call report breakdowns were five major New York-based correspondent banks: Manufacturers Hanover Trust Co., Chase Manhattan Bank, Morgan Guaranty Trust Co., Bankers Trust Co., and Citibank. As a result, the 1984 domestic and foreign correspondent bank totals for these banks are not comparable with their 1983 totals.

Listing Will Be Published

More meaningful comparisons for these banks will be comparisons based on "total correspondent balances," which are the sum of domestic plus foreign correspondent balances. The *American Banker* plans to publish such a listing next March 18 as part of its special edition for the American Bankers Association corporate banking conference.

Another minor effect of the call report changes was the replacement of the three traditional deposit types—demand deposits, time deposit, and savings deposits—with two new classifications—transaction accounts and nontransaction accounts. Demand deposits are shown as a component of transaction accounts. *American Banker* maintained its traditional ranking based on demand deposits. Transaction balances, which were not reported as demand deposits, were classified as time and savings deposits by *American Banker* and added to non-transaction balances to obtain total time and savings deposits due banks.

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Real Estate Executive Retiring from Coldwell

LOS ANGELES — The Coldwell Banker Real Estate Group announced Thursday that Forest E. Olson, 58, chairman and chief executive officer of its business unit, the Coldwell Banker Residential Group, will retire Dec. 31.

"Forest Olson has been one of the principal innovators in modern real estate practice and has built the premier residential brokerage organization in the country," said C. Wesley Poulson, chairman of the Coldwell Banker Real Estate Group. "He has, as much as any other individual at Coldwell Banker, been responsible for the success of the company during its publicly owned years and since the merger with Sears, Roebuck and Co. in 1981."

Mr. Olson will be retained as a consultant during most of 1985, focusing on the implementation of a new residential mortgage system.

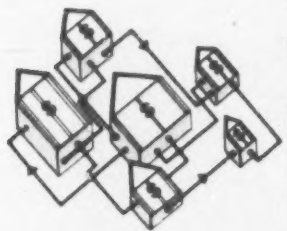
Joe F. Hanauer, 47, president of the residential group, has been nominated for the additional post of chairman and chief executive officer of that group. Upon election, he will begin service effective Jan. 1.

Mr. Hanauer was elected president of the residential group in March and has managed its residential brokerage operations since 1982.

Important Findings from the Survey of Correspondent Banking

By L. MICHAEL CACACE

NEW YORK — The *American Banker* surveyed approximately 600 commercial banks to identify and rank the top domestic and foreign correspondent bankers. Listed below are some of the survey's more important findings.



- There were 344 banks with \$10 million or more in domestic correspondent balances at midyear, compared with 300 a year earlier. These banks had \$29.53 billion in domestic correspondent balances, up 8.4% from \$27.25 billion a year earlier. The major reason for the gain was the inclusion for the first time this year of all thrift correspondent balances in the figures reported by banks. Excluding thrift correspondent balances, correspondent balances due other U.S. commercial banks declined 1.7% to \$25.93 billion.

ances. The 90-day T-bill rate rose approximately 81 basis points over the year ending June 30, 1984.

- If the prices of correspondent services remain unchanged, correspondent balances tend to fall as interest rates rise, since a lower level of balances are needed to pay for correspondent services. Preliminary findings of a survey of correspondent banker conducted by Robert Knight Associates, Alliance, Neb., finds almost no increase in the prices of correspondent services over the period of the study.

- Mr. Knight produced another interesting survey finding. The *American Banker's* survey has been criticized by some for measuring correspondent banks by balances only. Some argue that fees are becoming a more significant factor in correspondent banking. Mr. Knight finds that "the overwhelming majority of correspondent bankers report that the amount of compensa-

tion in the form of fees is less than 1% or 2% of revenues derived from traditional correspondent services."

- The survey finds that time and savings deposits due U.S. banks by the top 344 correspondent banks fell 29%, to \$9.13 billion from \$12.91 billion. Some of the factors cited by correspondent bankers for this decline are a tightening of Federal Reserve monetary policy, the depressed situation in agricultural areas of the country, and more "bottom line" consciousness by respondents who are looking for more attractive forms of investment to boost earnings.

- Seven New York City banks top the listing of banks ranked by foreign correspondent balances. Chase Manhattan Bank retained its ranking as the top bank in foreign correspondent balances, with \$1.33 billion at midyear. Citibank again was second, with \$1.07 billion. Manufacturers Hanover Trust

Co. moved up to third place, with \$1.06 billion; Chemical Bank was fourth, with \$1.02 billion; and Bankers Trust Co. was fifth, with \$996 million. Irving Trust Co. was sixth, with \$720 million, and Morgan Guaranty Trust Co. was seventh, with \$716 million.

- Fifty-seven banks had foreign correspondent balances of \$10 million or more, and the total of these deposits at these banks was \$10.43 billion on June 30, virtually unchanged from \$10.65 billion a year earlier.

- While demand balances remained virtually unchanged, time and savings deposits plummeted 74%, to \$4.57 billion from \$17.63 billion. The bulk of these deposits are uninsured, large-denomination certificates of deposits, and a portion of this tremendous decline may be attributable to the increased caution shown by banks in the wake of the problems experienced earlier this year by Continental Illinois Corp. ■



Securities Safekeeping

This slight decline in correspondent balances is primarily due to the rise in the earnings credit factor over the period. The earnings credit factor is an interest rate — usually the 90-day Treasury bill rate — used by correspondent bankers to value correspondent bal-

Answer . . .

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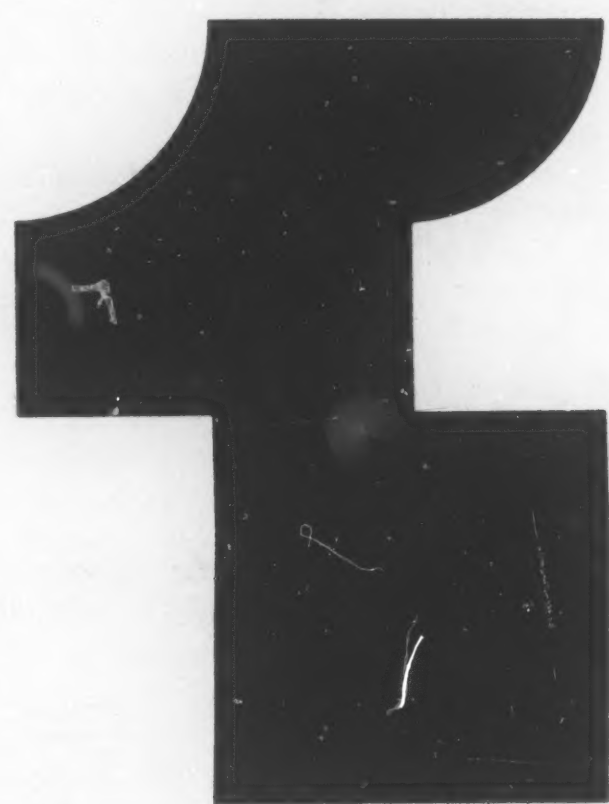
personal loans made by the bank to Charles, in the sum of \$12,500. Chad's new stepmother was added to the checking account and she made several withdrawals from the account. Except for \$320, all of the minor's funds were dissipated by the guardian and his wife.

A new guardian was appointed for Chad and he brought suit against the bank. The trial court held that the bank was not liable and entered judgment in favor of the bank, but the U.S. Court of Appeals in Washington reversed and remanded the case to the trial court to determine whether the bank was a holder in due course of the insurance check.

If the bank was a holder in due course of the insurance check, it took the check free of all claims and would not be liable to the guardianship estate.

The mere fact that the father who deposited the check was a guardian did not of itself put the bank on notice that the guardianship might have a claim against him. But in this case, the check was made payable to a guardian, giving notice that the funds were owned by the minor, Chad.

The bank had knowledge that the funds were deposited in the guardian's personal account, a transaction for his own benefit. The bank thereafter paid out the funds to pay the guardian's personal loans to the bank. All of these facts raise an issue of fact as to the bank's status as a holder in due course. The court concluded that the new guardian should have his day in court to determine whether the bank was a holder in due course. ■



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